THE INVESTMENT COMMITTEE
OF THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

MINUTES OF OPEN MEETING

February 16, 2021

The Investment Committee convened on Tuesday, February 16, 2021 at 9:53 a.m., via video-conference call with the host site at the Maryland State Retirement Agency, SunTrust Building, 120 East Baltimore Street, 16th Floor, Board Room, Baltimore, Maryland.

Committee Members Attending:	Michael K. Barry	Nancy K. Kopp
	David Brinkley	Richard Norman
	Eric Brotman, Chairman	Douglas Prouty
	Peter Franchot	Anne L. Shelton
	Linda A. Herman	Michael J. Stafford, Jr., Vice Chairman
	Sheila Hill	Lamont Tarbox
Also Attending:	Anish Bedi	Larry Katsafanas
	Frank Benham (Meketa)	Dean Kenderdine, Exec.Director
	Scott Bolander	Ratna Kota
	Colleen Bower	Charles Lee
	Robert Burd, Deputy CIO	Michael McCord
	Antionette Butcher	Nitin Mathew
	Rachel Cohen, OAG	Kyongdo Min
	Melody Countess	MSRA Streamer
	James Daly, Jr. (Trustee)	Mary Mustard (Meketa)
	Mike Fang	Stephen Muturi
	Eric Farls	Minh Nguyen
	David Ferguson	Ashu Pal
	Mimi Forbes	Andrew Palmer, CIO
	Anne Gawthrop	Stephen Reilly
	Michael Golden	David Rongione, Internal Auditing
	Dimitri Grechenko	Dan Schick
	Kenneth Haines (Trustee)	Jody Shaw, OAG
	Alex Harisiadis, OAG	Janet Sirkis
	John Harris (Meketa)	Kevin Slack
	Justin Hayes	Frederick “Beau” Smith
	Angie Jenkins	Toni Voglino
	Dana Johns	Alexandra Walinskas
	Greg Kasten	Jennifer Wildeman (Aksia)

Mr. Brotman, Chairman, called the Investment Committee meeting to order at 9:53 a.m.

Item 1: Ratification of the Open Session Minutes
Mr. Brotman asked if there were any comments on the minutes, and there were none.

On a motion made and seconded, the Investment Committee ratified the November 17, 2020 open meeting minutes.

Item 2: Investment Division Salary Scale Adjustments

Mr. Brotman called on Deputy CIO Robert Burd to present the action item regarding Investment Division Salary Scale Adjustments. Mr. Burd noted that while the overall compensation structure will be reviewed every 3-5 years, CBIZ had recommended that the salary scale ranges be adjusted annually to keep them in line with market. Mr. Burd presented a letter from CBIZ recommending a 1.9% adjustment in 2021 relative to the 2020 salary ranges. This adjustment was derived using two metrics, the World at Work budget survey and the employment cost index. Mr. Burd pointed out that the adjustment only applies to Investment-focused members and adjusts the salary scale only. Changes to salary occur through a separate process. Administration and Operations Investment personnel received a 2% COLA increase effective January 1, 2021and that increase did not apply to other Investment-focused personnel.

Mr. Brotman commented that the 1.9% adjustment looked reasonable and asked for a motion to approve the increase. Mr. Tarbox made the motion and Ms. Hill seconded the motion. All members voted in favor of the motion.

Item 3: Public Advisor Position – Call for Nominations

Mr. Brotman introduced Executive Director Kenderdine to discuss a call for nominations for the position of Public Advisor on the Investment Committee. Mr. Kenderdine indicated that the term of Mr. Tarbox would expire as of June 30, 2021 and that the Agency had made a call for nominations for the position.

Mr. Kenderdine stated that the deadline to submit nominations is Friday, March 5, 2021. Mr. Kenderdine explained that he and Mr. Palmer will conduct initial interviews with all candidates and bring forward at most three candidates for the Investment Committee's consideration at the May 2021 IC meeting. The selected person will then be brought to the Board of Trustees for approval and then to the Board of Public Works in the month of June 2021.

Item 4: Responsible Contractor Policy

Mr. Brotman called on Mr. Prouty and Mr. Tarbox to present a recommendation to task staff to work with members of the Committee to develop a responsible contractor policy for inclusion in the Investment Policy Manual. Mr. Prouty and Mr. Tarbox noted that initial, draft language for a potential Responsible Contractor Policy had been provided for review in the meeting materials. Mr. Prouty and Mr. Tarbox discussed the initiative and indicated that they would like to work with staff, the System's consultants and managers, and seek input from other public funds to create a policy that could be added to the Investment Policy Manual. They noted that the policy would not supersede the Agency's fiduciary duty but indicated that, in their view, having a policy that supported workers would ultimately benefit the System as a fiduciary. They further indicated that while the policy would impose additional duties on staff, they believed that most of the work would fall on the System's investment managers and consultants for compliance monitoring and reporting.

Mr. Brotman asked for input from Mr. Palmer and from Meketa. Mr. Palmer stated that staff has done some work with Mr. Prouty and Mr. Tarbox on the proposed language, but given the Board's Communication Policy, it was important to seek Committee guidance before doing further work on the issue. Mr. Palmer agreed that sound governance and effective employee relations are important, but indicated that staff would like to discuss the issue with other parties for guidance on the language and any potential implementation issues.

Mr. Brotman asked Mr. Benham from Meketa how other states are handling the issue. Mr. Benham indicated that Meketa had significant experience with both state and Taft-Hartley plans. He further indicated that Taft-Hartley plans were further along on this issue and that states were catching up. Mr. Benham stated that the implementation, monitoring and reporting take time but most of the managers can handle the added requirements. He indicated that it was very important to take the time to structure the policy appropriately to avoid issues related to implementation.

Ms. Herman expressed a concern about potential negative impacts on the System's ability to invest in private funds. She was concerned about monitoring manager compliance and the consequences if a manager violated the policy. She further inquired whether violations would require the System to divest. Mr. Brotman asked if the implementation requirements were onerous for staff and managers. Mr. Palmer stated that larger managers would likely be more able to comply with the policy than smaller managers and Mr. Benham concurred with that view.

Ms. Shelton suggested that it may be better to amend the ESG policy to include issues covered by the Responsible Contracting Policy. Mr. Brotman asked if the language could be incorporated into the ESG language in the Investment Policy Manual. Mr. Prouty did not have an issue with incorporating the policy into the ESG language if the resulting language addressed his major concerns. Mr. Palmer pointed out that there was not a single ESG section in the Investment Policy Manual but that ESG language is included throughout the IPM. He suggested that the language could be incorporated into the section on manager selection and monitoring.

Mr. Tarbox stated that it was not the intent of the policy to force divestment. The intent is to encourage engagement with managers and to use the policy as one step in developing a broader ESG policy. Ms. Shelton asked if other State plans are using the policy more for in-house management of direct real estate holdings rather than for investing in private funds. Mr. Benham indicated that few public plans have in-house real estate and infrastructure investments and that the policies were directed more towards external private funds. Ms. Shelton asked if the policy would discourage staff from investing in smaller boutique managers. Mr. Benham indicated it might have some impact but that most managers could accommodate the requirements. Ms. Shelton stated that while she appreciated Mr. Tarbox's comment about building an ESG policy from the bottom up she wondered if it might make more sense to take a top down view.

Mr. Brotman expressed concerns regarding staffing issues given the fact that the Investment Division is currently understaffed. He also stated concern that including the policy in the Investment Policy Manual could lead to onerous restrictions on staff and that perhaps it would be more appropriate to make it a Board policy. Mr. Prouty stated that he believed it was important to work with staff to craft a policy that would not be onerous and that he was indifferent if it were included in the Investment Policy Manual or if it were made a Board policy.

Ms. Herman expressed concerns about expanding the application beyond real estate and infrastructure to other private assets like private debt. She also noted that the policy was pro-union and was a first step down a "slippery slope" of social investing restrictions. Mr. Brotman agreed with those concerns. Ms. Shelton also agreed with those concerns and reiterated the opinion that a broader top-down ESG approach would be better.

Mr. Brotman suggested that Mr. Prouty put forth a motion for a vote to have the Committee and staff work on potential draft language for a Responsible Contractor Policy. At this time the Investment Committee engaged in an iterative discussion to frame the motion in a manner that best characterized the various objectives of the Committee. Trustees Stafford, Herman and Shelton preferred that the Investment Committee review any proposed policy language before it was adopted by the Board. Mr. Brotman and Treasurer Kopp assured the members of the Committee that the Board would include the Investment Committee in the process if the decision was to incorporate the Responsible Contractor Policy as part of Board Policy. If the Board voted to recommend a change to the Investment Policy Manual, the Investment Committee would need to directly approve that change.

Mr. Prouty made a motion to direct staff to work with members of the Committee, consultants and manager to develop responsible contractor language and recommendations for where that language is included, to be reported to the Board of Trustees. Ms. Hill seconded the motion.

Mr. Brotman asked Mr. Kenderdine for a roll call vote. The motion passed with ten votes in favor and one vote opposed. Ms. Herman opposed the motion.

Item 5: Report from CIO

Mr. Palmer began by noting the passing of State of Wisconsin Investment Board Executive Director/CIO David Villa and commented about his positive impact on how state pension funds invest plan assets.

Mr. Palmer provided a summary of plan performance and an update on the Investment Division. The excess return over the policy benchmark was 2.02% for the trailing one-year period as of December 31, 2020. In addition, performance goals have met or exceeded in all standard reporting periods. Mr. Palmer then provided an update on the efforts to implement derivatives overlay processes in-house and noted that he expects $1-2 million of implementation savings.

Mr. Palmer noted the on-going review of staffing needs in terms of the right mix of people and skillsets. He also noted several areas of need that he hoped to address in the near future especially for operations, governance, oversight, and data management. With expanded governance focus, including ESG, Mr. Palmer assessed that the team needs a dedicated resource to do this well. He also mentioned the need to add a dedicated oversight role as this function is occupying a large portion of his and Mr. Burd's time. Mr. Palmer noted that he will come back with a more detailed plan at a future date. Mr. Palmer also noted that there are currently eight open positions in the Investment Division, many of which are junior roles to support the more senior investment and administrative staff and are primarily new positions with only 2 of them the result of turnover.

Mr. Palmer stated that the Investment staff is actively reviewing and considering current risks in the market that could impact the portfolio ranging from exposure to FAANG stocks (which is becoming an increasingly larger part of the equity market), China, and Robinhood/Reddit.

Mr. Palmer spoke about procurement efforts and mentioned the general consultant search is underway given that Meketa's contract expires on June 30, 2021 and there are no further extensions. Consistent with the plan shared with the Committee in November, the RFP has been issued, posted to eMaryland marketplace and *Pensions and Investments* magazine as well as sent directly to known institutional investment consulting firms.

Mr. Palmer mentioned the new manager hires during the period and highlighted that many of the new investments were in the form of co-investments. He discussed key performance indicators for the fund and explained that the up/down capture has been improving over time which has been a key objective to improve absolute and relative performance. He also noted that the risk and return profile has shifted from achieving similar returns with less risk to higher returns with similar risk compared with the policy benchmark. In terms of performance, Mr. Palmer cited the relative performance against peer plans has been strong, top quartile in the last 12 months and has been displaying consistent improvement over several years. In absolute terms, the System's trailing 12-month return outperformed the benchmark by 202 bps and this excess return mostly came from the positive selection effect.

Mr. Palmer also discussed the progress on internally managed portfolios and noted that performance is meeting objectives. Mr. Brotman asked whether the performance of the internally managed portfolios is net of all expenses. Mr. Palmer noted that it is not but on balance the management of the portfolio is costing 0.57 bps which is less than what the System would be paying the external managers.

Mr. Palmer stated that the fund outperformed by 15 basis points in January and February performance appears to be strong up to the date of the meeting.

Mr. Palmer highlighted the staff memo regarding fixed income portfolio management in a low interest rate environment in response to a question from the previous IC meeting. There were no questions about the presentation.

Item 6: Meketa Reports

Mr. Benham discussed the impact of updated capital market assumptions, which are updated each January. He noted that changes this year are largely driven by declining interest rates, tightening credit spreads and rising equity prices. The impact of these three factors is lower expected returns going forward, with the 20-year expected return for the System's portfolio declining from 7.64% using the assumptions from last year to 7.03% currently. Mr. Benham noted that the calendar year return has been strong, essentially borrowing from future years and he expects future returns to be compressed. Other developers of capital market expectations likely have seen similar declines.

Ms. Mustard provided a review of policy benchmarks. In the prior year there were two proposed changes to the benchmarks for emerging market debt and real estate. But there are no changes proposed at this meeting but she noted that staff is currently discussing potential updates to the absolute return and natural resources/infrastructure benchmarks.

Item 7: Meketa Reports

Ms. Mustard provided a plan level performance update. She noted strong performance in both relative and absolute terms. All asset classes performed well relative to their benchmarks with the exception of natural resources and infrastructure, which underperformed significantly due to time lag issues relative to the benchmark. She further stated that manager selection was the strongest driver of return attribution.

Ms. Mustard presented peer plan data, including plans larger than $1bn, which showed the System performing well. The System was ranked in the 70th percentile during fourth quarter of 2020, top decile for 1-year, 16th percentile over 3-years, 31st percentile for 5-years and 54th percentile for 10-years. Ms. Mustard also mentioned the System's strong risk-adjusted performance, where the plan's Sharpe Ratio was ranked top 1% in both 3-year and 5-year periods.

Mr. Brotman emphasized the importance of this strong performance and commended staff's work. Treasurer Kopp added that strong relative peer performance news would be good to share with the legislature.

Mr. Palmer noted that the TUCs information was just released, and the plan ranked in the 21st percentile in 1-year and 46th percentile in 3-year relative performance.

Item 8: Absolute Return Review

Mr. Kasten noted the history of the absolute return portfolio and its focus, which is on diversification of return, are discussed in the memo. He highlighted the average rolling correlation and Sharpe ratio of the portfolio compared to its benchmark, which show the System's investments demonstrating more diversification benefits to the portfolio.

Ms. Wildeman from Aksia provided an overview of the absolute return program. She noted that given there was massive market dislocation due to Covid-19, the focus was taking advantage of the credit market, especially in distressed dislocation strategies. She noted that the team continued to shift from systematic macro to discretionary macro strategies beginning in the summer of last year. She noted the market dislocation led to some high-quality managers experiencing redemptions, allowing the absolute return team to take advantage of capacity at difficult to access managers, and add exposure to under-represented strategies.

She stated the plan had a very active year as the System deployed over $1.3 billion with new and existing managers, and that with few exceptions, the performance of new subscriptions and top-ups were positive and additive to the portfolio.

Ms. Wildeman provided an overview of the market and noted the elevated level of volatility since the March 2020 decline provided good opportunities for the System's hedge fund managers. She noted the industry itself had the best year since 2013 and all sectors were positive in 2020.

Ms. Wildeman reported that the portfolio achieved a 6.4% return, which was the best year on an absolute return basis since 2012. The portfolio performed in line with the HFRI FOF: Conservative Index on a risk-adjusted basis but underperformed the System's benchmark of HFRI FOF: Conservative +1%. In terms of the sector breakdown, Ms. Wildeman noted that three of the four sectors were positive – multi-strategy, relative value and event driven - while tactical trading underperformed. Concentration in systematic macro was the main driver for underperformance in tactical trading and the team is continuing to address this issue. Ms. Wildeman noted that, over the last three years, the team has been focused on diversifying the exposure profile. Staff has been executing on those goals successfully and the portfolio is well structured.

Mr. Brotman noted the portfolio's high allocation to multi-strategy and fund-of-funds in the past that has been reduced, but subsequently increased again recently. He asked whether the plan would continue to move away from multi-strategies.

Ms. Wildeman responded that there were some additions to multi-strategy funds recently. She finds attractive multi-portfolio manager platforms and high performers in this space that have the ability to quickly shift to the most attractive opportunities.

Mr. Brotman inquired if the elimination of the extra layer of fees from fund-of-funds had an impact on overall fees.

Ms. Wildeman replied that specific figures have not been calculated, but there was likely a reduction in fees. She mentioned that the fee structure for fund-of-funds were not aligned with investors, and commingled fund of funds especially have not been a good fit for Maryland because of their inability to customize the portfolio and negotiate fees. She further noted that the average management fee paid by the plan is lower than Aksia's monitored funds while the incentive fees are slightly higher due to the staff's on-going focus on aligning incentives this area.

Item 9: Committee Led Discussion

In preparation for the upcoming Asset Allocation Review, Mr. Palmer encouraged the Committee to share any investment ideas and topics to include in the analysis. He believes that these topics will generate interesting discussions for the Committee as it reviews the System's asset allocation.

Item 10: Investment Reports

The Committee received the following investment reports:

- State Street Performance Reports
- Terra Maria Performance Reports
- Private Markets Performance Reports
- Securities Lending Report
- Division's FY21 Travel Plan - Update

- Quarterly ORP Performance Report
- OPEB-PHBT Update
- New Hire Manager Report

On the Directors Desk:

- Broker Commission Reports
- Quarterly Manager Fee Report

Item 11: Motion by the Investment Committee to meet in Closed Session
Ms. Cohen read from the annotated State code for the Committee to convene in closed session.

On a motion made by Mr. Prouty and seconded by Mr. Tarbox, the Investment Committee voted without objection to meet in Closed Session at 12:01 p.m. for the purposes of:

> (a) reviewing the closed session Investment Committee minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function, and General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely, General Provisions Art., § 3-306(c)(3)(ii), requiring that the minutes of a closed session be sealed and not be open to public inspection; and
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> (b) considering proposed salary adjustments for employees of the Investment Division, pursuant to General Provisions Art., Section 3-305(b)(1)(i), to discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction

CLOSED SESSION

Committee Members Attending:	Michael K. Barry David Brinkley Eric Brotman, Chairman Linda A. Herman Sheila Hill Nancy K. Kopp	Richard Norman Douglas Prouty Anne L. Shelton Michael J. Stafford, Jr., Vice Chairman Lamont Tarbox
Also Attending:	Rachel Cohen, OAG	Dean Kenderdine, Exec.Director

Item 14: Motion by Investment Committee to adjourn closed session
On a motion by Mr. Brinkley and seconded by Ms. Hill, the Investment Committee voted without objection to adjourn closed session and return to open session at 12:45 p.m.

During closed session, the Investment Committee discussed and took action on the following matters:

The Investment Committee approved the ratified Closed Session minutes from the November 17, 2020 meeting.

The Investment Committee approved certain adjustments for employees of the Investment Division.

OPEN SESSION

Committee Members Attending:	Michael K. Barry David Brinkley Eric Brotman, Chairman Linda A. Herman Sheila Hill Nancy K. Kopp	Richard Norman Douglas Prouty Anne L. Shelton Michael J. Stafford, Jr., Vice Chairman Lamont Tarbox
Also Attending:	Rachel Cohen, OAG MSRA Streamer	Dean Kenderdine, Exec.Director

Item 15: Motion by Investment Committee to adjourn meeting

Adjournment — There being no further business before the Investment Committee, on a motion made by Mr. Prouty and seconded by Mr Tarbox, the meeting adjourned at 12:50 p.m.

Respectfully submitted,

Andrew C. Palmer
Chief Investment Officer